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C O N F I D E N T I A L PANAMA 000122

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EEB/ESC/IEC/EPC MCMANUS

E.O. 12958: DECL: 02/05/2019
TAGS: [ENRG](#) [EINV](#) [ECON](#) [EIND](#) [FPET](#) [PM](#)
SUBJECT: PANAMA: REFINERY ON HOLD DUE TO WORLD ECONOMIC
CONDITIONS

REF: 2008 PANAMA 000790

Classified By: Ambassador Barbara J. Stephenson for reasons 1.4 (b) and (d).

¶1. (U) This cable contains sensitive proprietary business information concerning on-going negotiations. Please handle accordingly.

SUMMARY

¶2. (C) Occidental Petroleum (OXY) and Qatar Petroleum (QP) representatives privately informed the Ambassador their firms are putting on hold (not canceling) the \$15 billion proposed Puerto Armuelles Refinery due to the lack of "viability" stemming from global economic conditions. The reps stressed that freezing the status of the refinery was not specific to Panama or the Government of Panama (GOP), but motivated by global economic conditions. The GOP was praised for its receptiveness to the project.

NOT VIABLE DUE TO GLOBAL ECONOMIC CONDITIONS

¶3. (C) OXY executives Antonio D'Amico, Assistant General Counsel, and Hasham Mukadam, Corporate Director of Midstream Projects and President of OXY, along with Ali Al-Sidiky, Director of Downstream Ventures of QP informed Ambassador Stephenson on February 6 that OXY and QP just informed GOP Minister of Commerce and Industry Gisela Porras that the proposed \$15 billion Puerto Armuelles Refinery is "not viable" at this time due to global economic conditions. As a result, OXY and QP will not proceed to the \$100 million Front End Engineering and Design (FEED) phase of the project. In Summer 2009, OXY and QP made the identical decision not to proceed from the pre-FEED to FEED phase. (See REFTEL for a full description of the project and its relationship to the PTP pipeline which will be in full reverse flow operation in August 2009, according to a recent conversation with the General Manager of PTP.)

¶4. (C) The OXY and QP reps explained the project could not move forward due to the erosion of the profit margin caused by the following factors:

- A) The price of petroleum has fallen by over 60% since July 2008 highs.
- B) The projected price to build the refinery escalated too much during the recent commodity boom and construction prices have not fallen in proportion to the fall in commodity prices. In addition, the refinery construction also relies

on specialized materials which have not fallen in price.

C) Financing is either unavailable or prohibitively expensive.

D) Demand for refined petroleum products has fallen in the United States market (which is the primary market for the products of the refinery). Additionally, Europe may be selling excess gasoline to the United States market in the future, because even more European gasoline powered vehicles are switching to diesel.

¶ 15. (C) OXY and QP reps reaffirmed that the actions by the Government of Panama (GOP) did not affect the project's viability. The GOP was described as "eager" and relations remain "friendly." The hold on the refinery is not public while OXY and QP wait for the GOP to develop talking points on the status of the project. Al-Sidiky also mentioned that Qatar and Panama are in discussions to open Embassies in their respective countries. Al-Sidiky is a member of the government and reports directly to the Minister of Energy.

STATE OF QP PROJECTS

¶ 16. (C) According to Al-Sidiky, QP's economists are not able to predict future economic conditions with certainty due to the confluence of unprecedented bad economic events in every region of the world. As a result, QP is re-evaluating strategic priorities. Four to five major QP projects have been canceled outright - some already had \$200 million in sunk costs. Additionally, other projects are being slowed down and some, like the Puerto Armuelles Refinery, are on hold.

FUTURE OF PUERTO ARMUELLES REFINERY

¶ 17. (C) On December 31, 2008, the Memorandum of Understanding (MOU) between the GOP, OXY, and QP expired. The GOP must now decide if they want to extend the agreement. OXY and QP asserted the GOP wishes to extend it due to the benefits of the refinery for Panama. During a brief conversation, Minister Porras informed the ECON Counselor that the OXY/QP decision was not unexpected and that the GOP has not yet decided on whether to extend the MOU due the exclusivity granted to OXY/QP. She mentioned other interested parties, but did not specify further. OXY and QP plan to re-assess the project next year. The re-assessment was characterized as a normal procedure for all QP projects regardless of the phase of negotiation or completion.

STEPHENSON